1. Which of the following is NOT a role that a financial manager is supposed to play?

(A) Making sure that the firm has enough cash to pay interest on loans on time

(B) Speculating in the financial markets

(C) Deciding how much amount to pay out as dividends out of the firm’s retained earnings

(D) Determining which brand of assets to purchase

2. Which of the following is NOT a characteristic associated with a corporation?

(A) It is somewhat costly to comply with government regulation in the short term

(B) It is easy to raise capital relative to other forms of business entities

(C) It is easy to transfer ownership

(D) A corporation has unlimited liability

3. Chinese citizens must pay income tax on their salary, and income is taxed according to the progressive tax scheme as in the following table.

|  |  |  |  |
| --- | --- | --- | --- |
| **Level** | **Annual Taxable Income (RMB)** | **Tax Rate (%)** |  |
| 1 | No more than 36,000 | 3 |  |
| 2 | Between 36,000 and 144,000 | 10 |  |
| 3 | Between 144,000 and 300,000 | 20 |  |
| 4 | Between 300,000 and 420,000 | 25 |  |
| 5 | Between 420,000 and 660,000 | 30 |  |
| 6 | Between 660,000 and 960,000 | 35 |  |
| 7 | More than 960,000 | 45 |  |

If Mr. Zhongguo has earned a pre-tax income of 500,000 RMB, what is the average tax rate that will be applied to his case? Write your answer in decimal form. (For instance, if you think the answer is 4%, write it as 0.04)

Tax = 0.03\*36000 + 0.1\*(144000-36000) + 0.2\*(300000-144000) + 0.25\*(420000-300000) + 0.3\*(500000-420000) = 97080

Average tax rate = 97080/500000 = 0.19416

4. Company ABC has just purchased a small machine. Its price is $10,000 and the machine is expected to last for the next 3 years. If the company decides to adopt the Modified Accelerated Cost Recovery System (MACRS), what is the net book value of the machine at the end of Year 2?

|  |  |  |  |
| --- | --- | --- | --- |
| MACRS Schedule | | | |
| Year | 3-Year Class | 5-Year Class | 7-Year Class |
| 1 | 33.33% | 20.00% | 14.29% |
| 2 | 44.45% | 32.00% | 24.49% |
| 3 | 14.81% | 19.20% | 17.49% |
| 4 | 7.41% | 11.52% | 12.49% |
| 5 |  | 11.52% | 8.93% |
| 6 |  | 5.76% | 8.92% |
| 7 |  |  | 8.93% |
| 8 |  |  | 4.46% |

(A) $2,222

(B) $4,445

(C) $5,555

(D) $6,667

5. Generally speaking, profitable companies would prefer to adopt an accelerated depreciation method. The reason is that straight-line deprecation method will record \_\_\_\_\_\_\_\_ depreciation expense in early years compared to the double-declining balance method. As a result, the amount of taxes to be paid by choosing the straight-line method is \_\_\_\_\_\_\_\_ in these early years.

(A) Higher, Higher

(B) Higher, Lower

(C) Lower, Higher

(D) Lower, Lower